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REVIEW OF PROGRESS IN THE DEVELOPMENTS OF TRANSIT TRANSPORT SYSTEMS IN SOUTH-EAST ASIA

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CONTENTS

Pages

I. Overview of the current economic situation and foreign trade of the Lao PDR 4

II. Lao PDR transport systems 9

A. Road transport 9
B. Railway transport 9
C. Mekong river navigation 10
D. Air transport 10
E. Sea port 11

III. Lao PDR transit transport corridors 11

A. Transport corridors via Thailand 11
B. Transit transport corridors via Viet Nam 13
C. Vietnamese ports for Lao PDR transit trade 15
D. Transit transport corridors via China 17
E. Transit transport corridors via Cambodia 18

IV. Movements of persons and goods along the two transit corridors (through Viet Nam and Thailand) 18

A. Conditions of circulation of commercial and private vehicles across borders 19
B. Customs documentation and procedures for Lao PDR transit traffic through Thailand and Viet Nam 21
1. Through Thailand 21
2. Through Viet Nam 23

V. Lao PDR documentation and procedure for imports and exports 24

VI. Review of other non-physical barriers 25

VII. Transit transport agreements 28

A. Bilateral agreements 28
B. Multilateral agreements 29
1. GMS Trilateral Agreement for the Facilitation of Cross-border Transport of Goods and People in the Greater Mekong Sub-region (GMS) 29
2. ASEAN agreements for the transport facilitation 29
3. The seven core ESCAP international conventions 30

VIII. Summary and conclusions on the new transit transport issues faced by Lao PDR 31

ANNEXES

ANNEX 1: GDP breakdown by sector 36

ANNEX 2: Transport transit costs and cost comparison by transit transport corridors 37

ANNEX 3: Outline of the Trilateral Agreement among the Lao PDR, Thailand and Viet Nam for Facilitation of Cross-Border Transport of Goods and People, dated 26 November 1999 38

I. Overview of the current economic situation and foreign trade of the Lao PDR

1. The Lao People's Democratic Republic (Lao PDR) is a landlocked country of 236,800 square kilometres with a population of 5.2 million people (1999), resulting in an average population density of 22 persons per square kilometres (the lowest density in Southeast Asia). The annual population growth rate stands at 2.4 per cent[1]. Much of the country is hilly and mountainous and 80 per cent of its land area is located at altitudes from 200 metres to 3,000 metres above sea level. Lao PDR is surrounded by Thailand to the West, with the Mekong River forming a natural border with Thailand for most of its length, Cambodia to the South, Viet Nam to the East and the People's Republic of China and Myanmar to the North. The population is concentrated in the corridor parallel to the Mekong River on the plains of Vientiane, Khammouane, Savannakhet and Champassak provinces, where population densities reach an average of 135 persons per square kilometres. The major towns in term of population are Savannakhet (766,000), the capital Vientiane (Municipality) (598,000), followed by Pakse (572,000) and Luang Prabang (416,000).

2. The per capita GDP is about $340. This is higher than Cambodia and Myanmar but lower than Viet Nam and Yunnan Province and much lower than that of Thailand. The economic base is agricultural with permanent agriculture in the lowland plains and shifting agriculture in the mountainous regions. Agriculture (including livestock, fisheries and forestry) accounts for 53 per cent of the Gross Domestic Product equivalent (GDP), employs 80 per cent of the labor force and constitutes 75 per cent of the value of exports, mostly through coffee and wood production.

3. The industrial sector, which includes manufacturing, construction and electricity, represents 22 per cent while the services sector represents 25 per cent.

Table 1. Lao PDR: Sector Trends (in percentage of GDP)

SECTOR	1994	1995	1996	1997	1998
AGRICULTURE	57.6	55.7	53.3	53.3	52.6
INDUSTRY	18.1	19.2	21.2	21.2	22.0
SERVICES	24.3	25.1	25.5	25.5	25.4
	100.0	100.0	100.0	100.0	100.0

Source: IMF Staff Country Report, January 2000

Principal crops are rice, cotton, tobacco, vegetables and maize. Principal natural resources are timber from the vast forest areas of the south and hydroelectricity. The country also has large deposits of mineral resources, particularly iron ore, limestone, tin and gypsum, which are as yet largely untapped (and unassessed). Cottage industries include salt extraction, weaving, rice mills, brick and ceramic kilns and repair shops. Industrial plants in operation include agro-processing units (coffee mills, pig farms), wood processing firms (sawmills exporting furniture products and other types of wood products), construction companies and manufacturing companies (assembly operations and construction material producers) and garment firms. The services sector is primarily tourism-related business.[2]

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[1] Assuming a gradual decline in Lao PDR's annual population growth rate from 2.4 per cent currently to 1.9 per cent, the population will increase by almost 70 per cent by the year 2020 to reach 7.6 million.

[2] A survey of the corporate business sector in Lao PDR carried out in 1997 by the Mekong Project Development Facility (MPDF) concludes that (i) wood processing and constructions firms (in large part due to Lao PDR's large budget for improving its road network and many new tourist facilities being constructed) report the most positive trends, (ii) performance of garment and service firms (mainly tourism-related

4. The overall volume of Lao PDR imports and exports is comparatively small. In addition, it suffers chronically from a trade deficit, as the total imports often reach as much as double the total exports.

Table 2. Lao PDR: Balance of Trade (1994-1999)

(in million US$)	1994	1995	1996	1997	1998	1999
Exports FOB (US$ m)	300.4	313.3	321.4	316.9	336.7	318.8
Imports CIF (US$ m)	564.1	588.8	689.6	647.9	552.8	524.8
Trade Balance (US$ m)	-263.7	-275.5	-368.2	-331.0	-216.1	-206
Exchange rate (kips per US$)		(804)	(923)	(1260)	(3,300)	(7,100)

Table 3. Lao PDR: Imports and Exports growth rates and percentage of GDP

(in per cent)	1994	1995	1996	1997	1998	1999
Total Exports/GDP	19.5	17.5	17.4	18.3	26.7	
Export growth rate	24.9	4.3	2.6	-1.4	6.3	
Total Import/GDP	36.6	32.9	37.3	37.3	43.8	
Imports growth rate	30.6	4.4	17.1	-6.0	-14.7	

Sources: IMF Staff Country Report (January 2000) and Macro-Economic Policy and Reform Framework – Roundtable Process 2000-2002, Vientiane, September 20,2000

5. A regulation issued in March 1999 imposed import restrictions on luxury goods in an effort to reduce the size of the trade deficit. However, restrictions do not apply to capital goods for production and re-export. This measure which first had a positive result in reducing the trade deficit[3] (see table 2) was recently less effective as evidenced by the data released by the Government for the first nine months of 2000.

6. In tonnage, annual imports are on average less than 1 million tonnes, while exports are less than half a million of tonnes. The tonnage of imports in 1998 reflected a significant quantity of imported cement during the same year. By comparison, the total volume of general cargo handled at the two international ports in the Bangkok Metropolitan Region exceeds 15 million tonnes.

Table 4. Lao PDR: Imports and exports 1998 and 1999 (in tonnage)

	IMPORTS		EXPORTS	
	1998	1999	1998	1999
Weight in tonnes	1,313,319	937, 659	546,310	912, 290

Source: Customs Department

7. As Lao PDR continues to move from a "command" economy toward a more market-oriented economy, from subsistence farming economy into a more diversified and commercialized ventures, international trade will continue to grow in importance. Imports of investments goods which include machinery, equipment and construction material, represent 40 per cent of total imports – almost "equal" to the imports of consumer goods in 1998. Table 5 shows the stabilized level of imports of consumer goods while imports of investment goods have grown as increased foreign direct investments have been realized.

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business) were weakest; (iii) manufacturing and agro-processing firms were mixed with some performing well and others stagnating (see A Survey of Medium and Large Private Companies in Lao PDR - MPDF, March 1998).The MPDF is managed by the International Finance Corporation (IFC), the private sector arm of the World Bank Group.

[3] However, a negative aspect has been a private sector less encouraged to engage in trade activities following the reduction of the number of licensed trading companies and an interference in the licensing process by the Ministry of Commerce and Tourism (MCT).

Table 5. Lao PDR: Composition of Imports (1994-1998)

IMPORTS	1994		1995		1996		1997		1998	
(in millions US$)	$m	%	$m	%	$m	%	$m	%	$m	%
Investment goods	146.1	26	189.3	32	277.0	40	226.8	35	226.7	41
Consumption goods	276.5	49	283.8	48	308.0	45	267.7	41	234.1	42
Materials for garments	51.3	9	66.3	12	70.0	10	73.7	12	66.8	12
Motorcycles parts	34.6	6	13.3	2	12.0	2	24.9	4	17.0	3
Other	55.6	10	36.1	6	22.6	3	54.8	8	8.2	2
Total Imports	564.1	100	588.8	100	689.6	100	647.9	100	552.8	100

Source: IMF Staff Country Report (January 2000)

8. In 1998, timber and wood products were the major commodities for export, accounting for nearly 50 per cent (in value) of total exports, agricultural products accounted for 13 per cent and manufactured products, including garments for 22 per cent. Electricity exports, as a percentage of total exports, jumped from 6 per cent in 1994 to 13 per cent in 1998.

Table 6. Lao PDR: Composition of exports (1994-1998)

EXPORTS	1994		1995		1996		1997		1998	
(in millions US$)	$m	%	$m	%	$m	%	$m	%	$m	%
Wood product	96.1	24.6	88.3	22.3	124.6	28.2	89.7	22.3	115.4	25.7
Logs	41.8	10.6	28.7	7.3	34.3	7.7	16.7	4.1	10.5	2.3
Timber	48.5	12.3	51.5	13.0	78.7	17.8	67.4	14.8	87.4	19.7
Coffee	3.1	0.8	21.3	5.4	25.0	5.6	19.2	4.8	48.0	10.7
Agriculture products	12.1	3.1	13.7	3.1	17.8	4.0	18.1	4.5	8.4	1.9
Manufacture (a)	36.3	9.2	43.3	10.9	27.9	6.3	15.3	3.8	10.1	2.2
Garments	58.2	14.8	76.7	19.4	64.1	14.5	90.5	22.5	70.2	15.7
Motorcycles	46.2	11.8	17.7	4.5	12.5	2.8	17.1	4.2	17.8	4.0
Electricity	24.8	6.3	24.2	6.1	29.7	6.7	20.8	5.2	60.7	13.5
Others	25.0	6.4	30.4	7.7	27.2	6.2	47.6	11.8	19.4	4.3
Total	392.1	100.0	395.8	100.0	441.8	100.0	402.4	100.0	447.9	100.0
Total Exports *	300.4		313.3		321.4		316.9		336.7	

Source: IMF Staff Country Report (January 2000)

(a) Excludes garments and wood-products

(*) Discrepancies to the sum total of the items listed are due to adjustments for the valuation of payments in kind to the Russian Federation.

9. The review of imports and exports by country shows that more than half the external trade of Lao PDR is conducted with the neighbouring countries are Thailand and Viet Nam. The two main trading partners. However, trade direction data show a marked difference between the routing of Lao PDR imports and exports with most imports (petroleum, steel and cement) coming from Thailand and most exports (logs and gypsum) going out through Viet Nam. Thailand is expected to increase in importance as an export market when electricity sales from the planned hydro and lignite powers projects come on stream.

10. Trade with the People's Republic of China (PRC) – both official and unofficial - increased considerably in recent years. Although recorded exports and imports have been so far insignificant, the rapidly improving economic situation of Myanmar and Cambodia is expected to lead to trade ties but Cambodia is a potential market for exports of Lao PDR hydroelectricity.

Table 7. Lao PDR: Direction of Trade – Exports* (1994-1997) – (In millions of US dollars)

EXPORT	1994		1995		1996		1997		1998	
	$ m	per cent	$ m	per cent	$ m	per cent	$ m	per cent	$ m	per cent
Thailand	77.2	25.7	83.3	26.6	96.7	30.2	70.1	22.1		
Viet Nam	81.2	27.0	87.7	28.0	157.6	49.1	135.2	42.7		
Cambodia	n.a		n.a		n.a		n.a			
China	8.1	2.7	8.8	2.8	0.8	0.2	0.3	0.1		
Singapore	0.1		0.1		0.8		0.3			
Others	133.8	45.0	132.9	42.0	64.8	20.0	111.0	35.0		
Of which :										
France		(3.4)		(3.5)		(2.6)		(6.3)		
United Kingdom		(0.3)		(0.3)		(2.1)		(4.7)		
United States		(1.7)		(1.7)		(0.8)		(2.2)		
Germany		(3.9)		(4.1)		(1.5)		(5.1)		
TOTAL	300.4	100.0	312.8	100.0	320.7	100.0	316.9	100.0		

Source: Ministry of Trade and Tourism

*Exports to Thailand may be overestimated as they may include transient goods countries

Table: 8 Lao PDR: Direction of Trade – Imports (1994-1997) – (In millions of US dollars)

IMPORT	1994		1995		1996		1997		1998	
	$ m	per cent	$ m	per cent	$ m	per cent	$ m	per cent	$ m	per cent
Thailand	270.3	47.9	287.8	48.9	310.0	45.0	336.6	51.9		
Viet Nam	22.5	4.0	23.9		25.8		25.1	3.9		
Cambodia	2.6		2.8		3.0		0.0			
China	20.2	3.6	21.5	3.7	23.2	3.4	4.9	0.8		
Singapore	14.7	3.0	15.7		16.9		0.6			
Others	233.8	41.0	237.1	40.0	310.7	45.0	280.7	43.0		
Of which										
Japan		(8.1)		(8.3)		(7.6)		(1.6)		
Taiwan		(0.8)		(0.8)		(0.8)		(0.7)		
Hong Kong, China		(1.2)		(1.3)		(1.2)		(1.5)		
Korea		(0.4)		(0.4)		(0.4)		(0.5)		
TOTAL	564.1	100	588.8	100	689.6	100	647.9	100		

Source: Ministry of Trade and Tourism

11. It should be noted that these figures underestimate the volume of trade between Lao PDR and its five neighbouring countries. The non official border trade is quite important in terms of value and tonnage transported. In terms of tonnage transported, the available export data shows that the traffic in transit (Singapore and other countries) represent less than 10 per cent of total exports.

Table 9. Lao PDR: Imports and Exports (FY 1997-1998) in tonnage

	Total Imports 1997-1998				Total Exports 1997-1998			
	Tonnage		Value		Tonnage		Value	
	In tonnes	%	in 000$	%	in tonnes	%	in 000$	%
Total Trade	907,592	100.0	447,364	100.0	421,710	100.0	106,877	100.0
Of which, with								
Thailand	n.a				286,419	55.0	67,564	63.0
Viet Nam	n.a				102,715	24.0	6,446.4	6.0
China	n.a				3,758	0.9	2,995	2.8
Singapore	n.a				1,343	0.3	2,052.9	1.9
Other countries	n.a				27,475	6.5	27,818.6	26

Source: Customs Department

Other estimates indicate 60,000 tonnes of export in transit and 200,000 tonnes of import in transit mainly through Thailand with 70 per cent of which is transported by container to Bangkok ports where the containers are unstuffed and transported in breakbulk to Lao PDR.

12. This current trade pattern is likely to continue. Viet Nam will continue to experience shortages of the type of goods in demand in Lao PDR, while Thai manufacturing capability for items such as cement, fertilizers and rolled steel will continue to expand. The high proportion of capital investment projects in Lao PDR which are Thai funded should contribute to sustain imports of construction materials from Thailand. Trade between Lao PDR and China is expected to increase along with the transit trade, especially between Thailand and China as road corridors through Lao PDR are developed.

13. External trade of Lao PDR should also increase, as it has considerable potential to expand exports in a wide range of agricultural commodities and light manufactured goods. This potential is based on its natural resources and its low labor costs relative to other exporters in the region. Agriculture is Lao PDR's traditional export base. Coffee production has continued to expand and can further contribute to export earnings as world prices recover. Timber logging should stabilize at a sustainable level.

14. The textile sector is also an emerging export sector, which was developed in the 1990s when import and export rights in non-strategic sectors were granted to all firms, subject to a registration requirement. This sector was further strengthened when the less restrictive and simplified tariff code was adopted in 1994. Experience elsewhere shows that exports of light manufactures, especially garments, can steadily increase even in low-income countries with limited industrial infrastructure. This in turn induces development in other light manufacturing activities.

15. Membership in the ASEAN Free Trade Agreement (AFTA) renders benefit including the intent to free the movement of capital and to increase investment and industrial linkages among members. ASEAN members are also expanding the provisions of the AFTA to include primary agriculture – an important development for an agrarian economies such as Lao PDR. Located at the centre of an expanding regional economy, Lao PDR could also capitalize from the growth in development opportunities of its three immediate neighbours (Yunnan (China), Viet Nam and Thailand) which are recovering from the recent economic crisis.

16. More generally, Lao PDR faces the challenge of its integration into the global economy as long as the current move toward liberalization is not reversed or stalled. Given the small scale of its domestic market, domestic industry will not develop behind protective trade barriers, thereby making the improvement of its transportation links with the outside so important. In this context, Lao PDR should draw benefits from the on-going process developed in the framework of the Integrated Plan of Action for the LDCs adopted by the first WTO Ministerial Conference held in December 1996, in Singapore.[4]

II. LAO PDR TRANSPORT SYSTEMS

A. Road transport

17. The public road system totals 23,206 Kilometres. Of this with 6,915 kilometres of national roads[5] (with 3,135 kilometres paved and only 1,500 in fair condition), 7,431 kilometres of provincial roads and 8,860 kilometres of urban roads, is one of the sparsest in Asia in terms of kilometre of road per sq. kilometres. The spine of the national road system is the NR 13 which consists of road no.13N and 13S (1,230 kilometres). It is an all-weather road between Botene (Lao/Chinese border) in the north and Veunkham in the South at the border with Cambodia. The road links Luang Prabang in the north with the major urbanized areas of Vientiane, Savannakhet and Pakse, over a distance of 1,091 kilometres[6].

18. Until recently, there were no fixed crossings of the Mekong River between Lao PDR and Thailand and all traffic has to pass across ferries. Now, two bridges spanning the Mekong river have been constructed and the construction of a third is expected soon. It is clear that these bridges have made the transport of goods between the two countries faster and more reliable. The *Mittaphap* or "Friendship Bridge" linking Thanaleng (Lao PDR) to Nong Khai (Thailand) opened to traffic in April 1994. It was constructed with financing from Australia. The Pakse bridge, which crosses the Mekong River within Lao PDR was opened to traffic early August 2000. It was financed by Japan. The proposed Japanese funded construction of a third bridge over the Mekong linking Mukdahan, in Thailand, to Savannakhet, in Lao PDR, should commence and should be opened to traffic by late 2003.

B. Railway transport

19. Although a railway system does not exist in Lao PDR, the Friendship Bridge was designed to allow for rail along the centre line of the bridge in the future. The State Railways of Thailand (SRT) has already completed the section between Nong Khai and the middle of the bridge as an extension of the existing Thai railway from Bangkok to Nong Khai. It is now Lao PDR's responsibility to continue the construction of the rail line to at least Thanaleng. Thanaleng is located on the Mekong River opposite the Thai city of Nong Khai. All freight with final destination beyond Thailand and Viet Nam is currently handled through this facility.

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[4] Pursuant to the Singapore Plan of Action, six multilateral Agencies - IMF, ITC, UNCTAD, UNDP, World Bank and WTO proposed an Integrated Framework (IF) to coordinate the provision of trade related technical assistance to LDCs. The IF was endorsed by the high-level Meeting on Integrated Initiatives for LDCs, organized by the WTO in Geneva in October 1997 to which Lao PDR participated.

[5] Decision 1311/MCTPC 2 June 1997

[6] Luang Prabang – Vientiane :390 kilometres; Vientiane – Savannakhet :453kilometres; Savannakhet – Pakse :248kilometres; Pakse – Khong (Lao PDR/Cambodia border): 160 kilometres

C. Mekong river navigation

20. The Mekong river[7], which flows though the Lao PDR for some 1,800 kilometres, is the main navigable inland waterway in the region. It provides a natural means of transportation capable of carrying international trade from China downstream past Vientiane[8] to at least Savannakhet/Mukdahan. Most parts are navigable but there are difficulties on various sections. Its navigational use is limited to 1,190 kilometres. The section between Vientiane and Savannakhet is the most suitable for river transport, inspite of the shallow sand-bars and narrow rocky passages with strong currents. Below these cities, rapids between Savannakhet and Pakse permit only seasonal travel due to low water level during the dry season. Between Pakse and the Cambodian border, the Khone Phapheng Falls prevent river through traffic.

21. Luang Prabang, Vientiane and Savannakhet have important river ports. There are several ports at Luang Prabang, two of which are: Ban Pak Kham, an old passenger port with customs and immigration check points; and That Luang, a cargo port built in 1989 with the assistance of the Australian Government. The two ports near Vientiane are: Laksi, completed in 1990 is located 4 kilometres downstrean from Vientiane; and Thanaleng, 16 kilometres from Vientiane (but 34 kilometres downstream from Vientiane) with roll-on roll-off facilities for river ferries. This port served cross-river traffic before the construction of the Mekong River Friendship Bridge. There are also several smaller provincial and municipal ports on the Mekong River.

D. Air transport

22. Air corridors throughout Lao PRD, vary depending on security conditions. A hub system of domestic air services throughout the country is operated by Lao Aviation and is based in Vientiane–Wattay, Luang Prabang and Pakse. Domestic air transport, though small in volume, plays a significant role in providing passenger service between large urban areas and to otherwise inaccessible areas. Scheduled flights to provincial centres are organized on most days. Lao PDR has two international airports, the Vientiane (Wattay Airport) can accommodate the Jumbo Boeing 747 and the airport in Luang Prabang can accommodate the Boeing 737-400 Medium. The Government plans to designate Pakse as the third international airport. By late 2000 regular direct air services to major cities in neighbouring countries included Bangkok, Chiang Mai, Hanoi, Ho Chi Minh, Phnom Penh and Kunming. There is currently an excess of air cargo space for the limited traffic offering. As the aircraft currently in use are comparatively small and do not accommodate air cargo containers, all air freight is either handled on pallets or loose.

23. As a gradual step toward an Open Sky Policy in ASEAN, Lao PDR has just signed an agreement with Viet Nam, Cambodia and Myanmar allowing these country'airlines to

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[7] The Mekong River rises in Tibet and flows into the South China Sea through the southern part of Viet Nam. It is, with 4,200 kilometres, the fourth longest river in Asia.

[8] A trial mission was organized by the Chinese in October 1990 with five 60-tonnes vessels successfully negotiating the rapids and other hazards from Jinghong (China) at the Chinese-Lao PDR border to Vientiane. Eight days were necessary to cover the section from Jinghong to Luang Prabang (about 530 kilometres) and 3 days from Luang Prabang to Vientiane (426 kilometres).

carry passengers to a third country[*]. On October 29, 2000,Viet Nam Airlines started a flight service between Hanoi – Vientiane – Phnom Penh– Ho Chi Minh. This new route is aimed at the tourist trade and expanding economic relations between the three countries. It hopes to attract more and more tourists from Western Europe and North East Asia to visiting the Indochina region. It is estimated that over 4 million passengers will travel to Viet Nam, Lao PDR and Cambodia by the end of the year. This Open Sky Policy allowing more airlines to Lao PDR is a challenge for the aviation sector which must be improved to meet the demands of the growing network of competitive air services

E. Sea port

24. As landlocked country, Lao PDR does not have a seaport, however, it owns two ocean-going vessels, registered at Da Nang.

III. LAO PDR TRANSIT TRANSPORT CORRIDORS

25. Lao PDR is surrounded by five countries, namely Myanmar, Thailand, Cambodia, Viet Nam and the People's Republic of China. It has a number of official border crossing, entry/exit points to control the movements of goods and passengers with each of them and has road border crossing with all except Myanmar. Road transport is the dominant mode of transport within Lao PDR and will continue to dominate both freight and passenger traffic to/from neighbouring countries in the foreseeable future.

26. Lao PDR can also use transit transport corridors west through Thailand and the ports of Bangkok and Laem Chabang, which is 125 kilometres south of Port of Bangkok; east through Viet Nam and the ports in Central Viet Nam of Cua Lo, Xuan Hai, Vung Ang, Da Nang and Quy Nhon and the port under construction of Vung Ang, and south through Cambodia and the port of Sihanoukville.

A. Transport corridors via Thailand

27. The Agreement on Road Transport between the Government of Lao PDR and the Government of the Kingdom of Thailand was signed on March 5, 1999 with the "Protocol defining the details of the road transport". Six international check-points for transit traffic along with three local check-points for cross border traffic have been designated, which are shown below.

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[*] Open skies accord removes restriction on where carriers fly, the number of flights they operate and the prices they charge.

Border gates on the Lao PDR side	Lao PDR Road (RN) / Thailand Road	Border gates on the Thailand side
International Check Points		
Houayxay (Bokeo province) Thanaleng (Vientiane Municipality) Thakhek (Khammouane province) Savannakhet (Savannakhet province) Vangtao(Pakse) (Champassak) Paksan (Bolikhamxai province)	RN1 A 12 RN 12 RN9 RN16 RP 13 S	Chiang Kong (Chiang Rai province) Nong Khai (Nong Khai province) Nakhon Phanom (Nakhon Phanom) Mukdahan (Mukdahan province) Chongmek (Ubon Ratchathani) Bungkane (Nong Khai province)
Domestic Check Points		
Namngeun (Sayaboury province) Kenthao (Sayaboury province) Paktaphane (Salavan Province)		Houei Kone (Nane province) Nong Pheu (Leuy province) Pakseng (Ubon Ratchathani)

28. Thailand is the main transit corridor for Lao PDR's third country trade. The main flow of imports arrive in Lao PDR through Thanaleng near Vientiane, while the larger share of exports pass through Savannakhet, since the main producing areas for export commodities (wood, coffee) are located in the south of the country. Imports to Lao PDR through Thailand or exports from Lao PDR through Thailand are shipped via the port of Bangkok or the Port of Laem Chabang, or to any of the five private ports located on the river within metropolitan Bangkok.

29. All transit cargo for Lao PDR, regardless of the point of exit from Thailand, must first be delivered to a transit warehouse at Klong Toey. This warehouse located adjacent to the port of Bangkok, is made available exclusively for the use of the Lao PDR. Klong Toey is considered the gateway of Lao PDR imports. For cargo consigned at the port of Laem Chabang, or to one of the private ports, in principle, should be moved under customs escort to the transit warehouse, with the cost of escort born by the consignee. The only exception permitted is "project cargo" which can be moved directly from the port of landing to Lao PDR.

30. Transit goods to/from Lao PDR can be moved between Bangkok (Klong Toey) and Vientiane or Savannakhet or Pakse in Lao PDR. The three main transit corridors currently available are (1) Thanaleng (Lao PDR) and Nong Khai (Thailand); (2) Savannakhet (Lao PDR) and Mukdahan (Thailand); and (3) Pakse (Lao PDR) and Chong Mek (Thailand).

31. **Thanaleng (Vientiane) transit corridor**: Cargo is generally transported from Klong Toey to Vientiane via a transhipment point at Nong Khai in Northern Thailand. Traffic from/to Bangkok to/from Nong Khai can follow one of two alternate modes of transport, road or rail. Nong Khai is 620 kilometres by road and 625 kilometres by rail from Bangkok. From Nong Khai, which is on the Thai side of the Mekong river, cargo is transported in Lao PDR by truck to the river port of Thanaleng, reached after crossing the Friendship Bridge over the Mekong river. The distance between Vientiane and Bangkok by road is 642 kilometres of which 620 kilometres are in Thailand. The highway from Bangkok (Klong Toey) to Nong Khai is a four-lane standard highway in good condition. It is heavily used by trucks carrying cargo to and from northern Thailand. The railway also has a connection between the transit warehouse at Klong Toey and Nong Khai. In Nong Khai, the track is extended close to the ramp and goods brought by rail are transferred to trucks to cross the Mekong river.

32. **Savannakhet transit corridor:** Savannakhet through Ubon Ratchathani and the Thai National Highway 23, crossing the Mekong at Mukdahan (Thai border town). The second international bridge across the Mekong river linking Mukdahan to Savannakhet is expected to be opened to traffic by 2003. The Department of Highways of Thailand plans to also widen the highway route from Mukdahan to Laem Chabang through Ubon Ratchathani into a four-lane highway. The distance between Savannakhet and Bangkok is 663 kilometres.

33. **Pakse transit corridor:** Pakse (Champassak province), the Lao RN 16 crosses the new bridge over the Mekong river, which opened to traffic in August 2000, reaches Vang Tao/Chong Mek (Lao/Thai border). From Chong Mek, the Thai Provincial Highway 217 heads to Ubon Ratchathani and the Thai National Highways 23. The distance between Pakse and Bangkok is 747 kilometres (Pakse to Chong Mek is 42 kilometres). The former route between Pakse and Bangkok (through Savannakhet) was 903 kilometres.

B. Transit transport corridors via Viet Nam

34. Under the Agreement on Road Transport between Lao PDR and Viet Nam signed in 1996, eight check-points have been designated from North to South as follows:

Border gates on the Lao PDR side	Lao PDR Road (RN) / Viet Nam Road (QL and PR)	Border gates on the Viet Nam side
International transit traffic		
1. Keo Nua (Na Pe) (Bolikhamxai)	RN 8/QL 8	Keo Nua (Cau Treo) (Ha Thinh)
2. Dean Savahn (Savannakhet)	RN9/QL9	Lao Bao (Quang Tri province)
Cross border traffic		
3. Sop Hun (Phongsali province)	RN 4/PR 42/ QL 279	Tay Trang (Lai Chau province)
4. Sop Bau (Houaphan province)	RP 6 /QL 43	Pa Hang (Son La province)
5. Ban Loi (Houaphan province)	RN 6 – PR 217/QL 217	Nam Meo (Thanh Hoa province)
6. Namkan (Xiengkhouang province)	RN 7 /QL 7	Nam Can (Nghe An province)
7. Tong Kham (Khammouan)	RN 12/ QL 29	Cha Lo (Keo Mu Gia)
8. Giang Gion	RN 18/QL 40	Bo Y

When shipped through Viet Nam, most Lao PDR imports and exports use the port of Da Nang and to a lesser extent the ports of Cua Lo (Nghe An Province), Xuan Hai (Ha Tinh Province) and Quy Nhon (Binh Dinh Province). In addition, The Government of Viet Nam has offered Lao PDR the use of the port Vung Ang (Ha Tinh Province) which is currently under construction. At present, Viet Nam ports only service a small portion of Lao PDR external trade. This is due in part to: the replacement of CMEA by western supply sources; the road improvements in Thailand, which have resulted in further diversion of Lao PDR trade to Bangkok; and a greater freedom of choice in supply routes as a result of the transition to a market economy.

35. There are presently two main transit transport corridors from Lao PDR connecting Cua Lo port and Da Nang port: RN8 starting from Paksane, (Vientiane – Paksane: 140 kilometres – RN13S); and RN9 from Savannakhet (Vientiane – Savannakhet, 453 kilometres – RN13S). Two other transit transport corridors are also considered: RN 12 from Thakhek to connect Vung Ang port – a port under construction in Viet Nam that has been envisaged to become a port dedicated to Lao PDR transit goods. (Vientiane – Thakhek, 353 kilometres) and RN 18 from Pakse through Attapeu which needs to be partly constructed.

36. All these roads pass through difficult topography, all have steep gradients and tight radius curves, making it difficult for under-powered vehicles to ascend and potentially dangerous for heavy vehicles to descend. Without improvement, none of these routes could support heavy traffic such as container trailers. Three of these corridors are part of the East-West Transport Corridors Project (R2) to link Thailand-Lao PDR-Viet Nam.

37. The Asian Development Bank and the Mekong River Commission carried out a comprehensive study with the objective of linking ports in central Viet Nam to northeastern Thailand through central Lao PDR. This study included the following roads:

(a) **Road 8 (RN 8)** connecting Paksane (capital city of the Lao PDR Province of Bolikhamsay) with Cua Lo port (near Vinh) Paksane – Cua Lo port, 257 kilometres; Paksane – Vientiane,140 kilometres. The RN8 starts from Ban Lao (junction with road No 13S) to Keo Nua (Na Pe), the border with Viet Nam (132 kilometres). The rehabilitation project of 83 kilometres of RN 8 is financed by SIDA. The work is progressing, but many river crossings still lack bridges. In Viet Nam, road QL 8 starts from the border with Lao PDR at Cau Treo and connects the road QL 1 (86 kilometres) – some 39 kilometres must be rehabilitated. The road continues to Vinh on QL1 (19 kilometres) and from Vinh connects with the Cua Lo port (20 kilometres) to the North or the port of Hon La to the South, (Viet Nam/Lao PDR border – Cua Lo port,125 kilometres).

(b) **Road 9 (RN 9)** runs east from Savannakhet into Viet Nam to the port of Cua Viet in Quang Tri province (337 kilometres) and the port of Da Nang (944 kilometres) Vientiane – Savannakhet, 453 kilometres (Route 13 S) and Savannakhet – Da Nang, 508 kilometres (Route 9). Road 9 starts from Savannakhet and continues via Xeno to the Lao – Viet Nam border at Lao Bao. The road was rehabilitated between 1982 and 1988 as an all weather road but again requires complete rehabilitation which will be jointly financed by Japan and ADB. (Savannakhet – Lao PDR/Viet Nam border, 246 kilometres).

38. In Viet Nam, the QL9 starts from the Lao PDR/Viet Nam border at Lao Bao to reach Dông Hà (Quang Tri Province) on Highway QL1 (86 kilometres). From Dông Hà, traffic turns south on Highway QL1, to reach the port of Da Nang. (Dông Hà – Da Nang, 176 kilometres). The present condition of the road in Viet Nam is generally poor. The Vietnamese Government is in the process of replacing the old bridges with an increased load capacity of 25 tonnes, as well as some road rehabilitation works. No improvement of horizontal and vertical alignment has been planned.

(c) **Road 12** starts from Thakhek to reach Vung Ang port, 313 kilometres; Vientiane – Thakhek (Khammouan), and 353 kilometres; Savannakhet – Thakhek, 116 kilometres. Road 12 starts from Thakhek on RN 13S. Thakhek – Mu Gia (Lao PDR border with Viet Nam), 142 kilometres. Between Thakhek and Nyommalat the road is good. From Nyommalat to the border with Viet Nam (Mu Gia) 104 kilometres, the road is a four-wheel track which had been studied by TEDI, a Vietnamese consulting firm.

39. Few alternates had been considered on the Vietnamese side between Mu Gia to Ky An on QL1. The distance between Ky Anh and Vung Ang port is 21 kilometres. According to a preliminary survey conducted as part of the East-West Transport Corridor Study, this route is presently impassable during the rainy season and would require the construction of two major river crossing structures. The Lao PDR has considered raising the necessary

funds for Road 12 through a concession system. The Foreign Investment Management Committee of Lao PDR has given in principle its agreement.

(d) **Road 18** (RN 18) connects Pakse to the ports of Qui Nhon or Da Nang. Road 18 starts at the intersection between Road 13S and Road 13A or 10 (8 kilometres east of Pakse). The southern corridor crosses the Boloven Plateau in Lao PDR, with the towns of Paksong, Ban Taut, continuing with the new road constructed by the Korean Contractor Daewoo for the power station of the Houay Ho project. This new road shortens the previous distance from Pakse to Attapeu (via Sekong) by 60 kilometres.

40. A vehicular ferry at Attapeu crosses the Xe Kong river and the gravel road continues 11 kilometres to the town of Xaisetta. Beyond this point little exists except rough formed tracks which first cross the river flats, then the mountain range to Viet Nam some 80 kilometres away. The most prominent of these is the southern section of the Ho Chi Minh Trail. Prior to entering Viet Nam the track passes through the north east section of Cambodia. From the Lao PDR/Viet Nam border, there is no existing roadway to provide the core of the route; a short gap of approximately 15 kilometres exists between the border and any road in Viet Nam, in particular QL 14 which runs parallel to the border, with the closest town in Viet Nam being Dac To.

41. From Dac To, the options in Viet Nam comprise three routes to the port of Qui Nhon and Da Nang. In one option, the route crosses the Central Highands to Kontum and Pleiku, descending to the port city of Quy Nhon, (Pakse – Quy Nhon, 553 kilometres with 273 kilometres in Lao PDR and 280 kilometres in Viet Nam). Another option is toward Da Nang. (Pakse –Da Nang: 561 kilometres with 273 kilometres in Lao PDR).

42. The Southern corridor connecting Pakse to Da Nang through the southern corridor is 561 kilometres, while though the Central corridor Pakse to Da Nang via Saravan is 597 kilometres (335 kilometres in Lao PDR and 262 kilometres in Viet Nam), or Pakse to Da Nang via Savannakhet is 764 kilometres (502 kilometres in Lao PDR and 262 kilometres in Viet Nam).

C. Vietnamese ports for Lao PDR transit trade

43. The national[10] ports in Viet Nam serving as sea ports for transit traffic to and from Lao PDR include: (1) Cua Lo port in Nghe An Province; (2) Xuan Hai port in Hai Tinh Province; (3) Da Nang port in Quang Nam Da Nang Province; and (4) Quy Nhon port in Binh Dinh Province. In addition, new ports which are under rehabilitation and construction at Vung Ang in the Ha Tinh Province, have been designated by the Government of Viet Nam for handling transit cargo of the Lao PDR.

(a) **The port of Cua Lo**, located 20 kilometres northeast of Vinh, was developed with the assistance from the former Soviet Union, to serve transit traffic to and from Lao PDR via Route 8. The port is linked by a narrow, 13 kilometres asphalt road to Highways QL 1. At present, ships of up to 5,000 dwt can enter the port.

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[10] National ports are under the central management of the Viet Nam National Maritime Bureau (Vinamarine), while provincial ports are under the management of the Provincial authorities.

44. The port has many limitations, in particular a serious problem which requires regular dredging to get depths of 7.5 metres required for 5,000 dwt ships. In addition, typhoons often necessite the port closing from September to November. The port has two berths (330 metres quay). Its current annual traffic capacity is estimated at 500,000 tonnes. A project is planned to construct two more berths dedicated to general cargo and to log exports from Lao PDR.

(b) **The port of Xuan Hai** (Hai Tinh Province) is located on the Lam River 9 kilometres from the junction of QL 8 and Highways QL1 is about 25 kilometres closer to Lao PDR than Cua Lo port. Major dredging is required to allow vessels of up to 5,000 dwt to enter. The port features a 65 metre long, 7 metre deep berth constructed last year for Lao PDR transit traffic. The port can serve vessels of up to 3,000 dwt. Dredging of the access channel is required to allow vessels of up to 5,000 dwt to enter. The port of Xuan Hai had been considered for some time by the Vietnamese Ministry of Transport as a possible Lao PDR transit port. Logs from the Lao PDR have accounted in the past for a substantial share of the traffic at Xuan Hai.

(c) **The port of Vung Ang**, at the west of Mui Ron Cape, is linked with the Highways QL 1 by a 9 kilometre road. It is 157 kilometres south of Cua Lo port and 107 kilometres south of Xuan Hai port. The port has natural depths of 9-15 metres suitable for the accommodation of large vessels up to 70,000 dwt. It needs a short access channel requiring little capital and maintenance dredging. The port was designed by TEDI, a Vietnamese national consulting firm, on the basis of the exploitation of iron ore in the Thakhek region.

45. Protected against typhoons and the NE winds, the port's location is the most favourable in the northern part of the central region. A first berth for general/break bulk with a 13 metre depth will be completed by 2001. The Vietnamese Government is under discussion with Lao PDR Government to use Vung Ang port as the new transit port for Lao PDR imports and exports in conjunction with the rehabilitation of Road 12 between Lao PDR and Viet Nam.

(d) **The port of Da Nang**, Viet Nam's third most important commercial port is situated in a bay south of Hue and serves as a transit port for traffic to and from Lao PDR via Route 9. Da Nang is also considered a potential growth centre, with substantial scope for industrial development and tourism. Da Nang comprises a new seaport at Tien Sa, established on the Tien Sa rocky peninsula with the potential of serving ships of up to 15,000 - 25,000 dwt and a river port at Song Ha which is the old port established on the river banks of the city. Tien Sa has two 182 m x27 m piers located 110 metres apart. The total capacity of the Tien Sa port is estimated at 1,800,000 tonnes by Vinamarine but more reasonably is of the order of 800,000 tonnes.

(e) **The port of Quy Nhon** is located in a well-protected bay 340 kilometres south of Da Nang, accessible by a 3 kilometres long channel. Quy Nhon is a potentiel outlet for the southern Lao PDR Provinces of Attapeu and Champassak.[11] The port has two piers with a total length of 350 m and a depth of 7.5 m at the berths for 10,000 dwt ships. Its annual capacity is estimated at 500,000 tonnes.

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[11] In addition to serve the northeastern Cambodian provinces of Rattankiri and Stung Treng and the northeastern Thailand province of Ubon Ratchathani.

D. Transit transport corridors via China

46. Under the Agreement concerning International Road Transport between the Government of the People 's Republic of China and the Government of the Lao People's Democratic Republic dated December 3, 1993, four border check-points between Lao PDR and China have been selected.

With China

Border gates on the Lao PDR side	Lao PDR Road (RN) / China Road	Border gates on the China side
Botene (Luang Namtha province)	RN13	Bohane
Lanthuy (Phongsaly province)	RN1	Paksa
Paka (Phongsaly province)	RN 19	Ban Chom
Panthong (Luang Namtha province)	RN 3	Muong Mam (*)

(*) Cross border point recommended by China but not yet accepted by Lao PDR

China is not a transit country for Lao PDR. On the other hand, Lao PDR can become an important transit country for China as its transit trade particularly with Thailand is expected to increase dramatically over the next 25 years. Two sub-regional land transport projects – project R3 and project R8, studied by ADB have been considered to service transit traffic from/to China through Lao PDR.

(a) **Project R3**: **The Chiang Rai – Kunming Road via Myammar and Lao PDR.** The project would improve the international north-south road connection between and among Yunnan Province, Myanmar, Lao PDR and Thailand. The western route starts at Kunming and continues to the Myanmar/Thai border (1,031 kilometres). The eastern route is identical to the western route from Kunming to Jinghong, then runs southeast to Mengla, crossing the Yunnan/Lao PDR border at Bohan/Botene, and then proceeding via Luang Namtha and Ban Houeisay in Lao PDR to the border with Thailand at Chiang Khong (1,109 kilometres) and continuing to Chiang Rai.[12]

(b) **Project R8 - The Southern Yunnan Province – northern Lao PDR – northern Thailand – northern Viet Nam Road Improvement Project**. The project will provide a west-east link by upgrading the RN1 and 4 in Lao PDR and portion of routes QL 6 and QL 42 in Viet Nam. The Lao PDR portion begins at Nateui on RN 1, at the border with China (Botene) and reach Oudomsay, after a distance of 75 kilometres. From Oudomsay, the RN 4 reaches Sop Hun border with Viet Nam at Tay Trang, a distance of 172 kilometres. In Viet Nam the road QL 42 passes through Dien Bien Phu (kilometres 34), then the road QL 279 up to Tuan Giao. From Tuan Gio the road follows QL 6 up to Hanoi and then QL 5 between Hanoi and Haiphong. (Haiphong – Hanoi, 89 kilometres; Hanoi – Tuan Gio, 394 kilometres; Tuan Gio – Dien Bien Phu, 80 kilometres; Hanoi – Viet Nam – Lao PDR border 508 kilometres).

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[12] On the western route, within Yunnan Province about 116 kilometres traverse flat terrain, 128 kilometres run through rolling to hilly terrain and 526 kilometres pass through mountainous terrain. In Myanmar, 38 kilometres traverse flat to rolling terrain, 84 kilometres pass over rolling to hilly country and 139 kilometres cut through mountainous terrain. On the eastern route within Yunnan Province, about 178 kilometres traverse flat terrain, 60 kilometres run through rolling terrain, and 608 kilometres cut through mountainous terrain. In Lao PDR about 195 kilometres of the route is on rolling to hilly terrain and 68 cut through mountainous terrain. In Thailand, entire the route traverses on flat to rolling terrain.

E. Transit transport corridors via Cambodia

Between Lao PDR and Cambodia, the border point is:

With Cambodia		
Border gates on the Lao PDR side	Lao PDR / Cambodia Road	Border gates Cambodia side
Veune Kham (Kinak)	RN 13 S	

47. The transit transport corridor through Cambodia is not operational yet but in the future should provide Lao PDR with access to the sea and the port of Sihanoukville through a third country. In the long term, this corridor could also provide Cambodia with direct access to China through Lao PDR. Project (R6), the southern Lao PDR to Sihanoukville road improvement studied by ADB, is the most direct link between southern Lao PDR and Cambodia. From Pakse to the Lao PDR/Cambodia border, the road RN13S is a bituminous one of 168 kilometres. From the border, the southern Lao PDR to Sihanoukville corridor follows Route 7 south to Skun. From Skun the route follows Route 6 to Phnom Penh. Lao PDR/Cambodia to Phnom Penh, 550 kilometres, although the road is in need of rehabilitation. Between Phnom Penh and Sihanoukville, the Route 4 connects the capital of Cambodia with the country's only deep sea port, 223 kilometres.

48. Other Lao PDR subregional land transport routes crossed by five ASEAN Highway Transport Routes includes AH3: Botene – Luang Namtha – Houeisay, 253 kilometres; AH6: Vientiane – Cambodia border, 861 kilometres; AH4: Natrey – Oudomsay – Luang Prabang – Vientiane – Thanaleng, 682 kilometres; AH7: Nape – Ban Lao, 132 kilometres; and AH8: Savannakhet – Lao Bao, 240 kilometres.

The distance (in kilometres) between some regional centres in Lao PDR to Thai Vietnamese and Cambodia ports are as follow:

Destination in transit countries (in kilometres)

Towns in Lao PDR	Bangkok	Cua Lo	Vung Ang	Da Nang	Quy Nhom	Haiphong	Sihanoukville
		RN8	RN12	RN9	RN18		
Oudomsay	1224			1494		763	
Luang Prabang	1032	787					
Vientiane	642	397	666	961			
Paksane		257					
Thakek	740		313				
Savannakhet	663		429	508			
Pakse	747			597	553		941

IV. MOVEMENTS OF PERSONS AND GOODS ALONG THE TWO TRANSIT CORRIDORS (THROUGH VIET NAM AND THAILAND)

49. The circulation of persons and goods is hampered not only by a lack of good road connections but also by different road traffic regulations and legal and administrative obstacles. These so-called "non-physical barriers" impede the free movement of persons and goods to and from Lao PDR through its transit countries. There are two types of constraints: (i) constraints related to transit formalities across borders (immigration

formalities, regulations governing temporary importation of vehicles, customs documentation and procedure, as well as operations at border posts); and (ii) constraints related to road system operating conditions (traffic regulations, vehicles specifications, insurance, road design standard, road tolls and entry fees).

50. The following is an assessment of some of the main constraints to the movement of persons and goods identified along the two transit corridors: (i) conditions of circulation of commercial and private vehicles across borders; (ii) customs procedures and regulations for Lao PDR transit traffic through Viet Nam and Thailand; (iii) customs procedure and regulations for import and export to and from Lao PDR and (iv) review of other non physical barriers.

A. Conditions of circulation of commercial and private vehicles across borders

51. The issue is the movement of vehicles across borders by either private vehicles (passenger and transport for own account), or commercial motor vehicles (trucks and bus passengers) operated by professional transport operators (transport for hire or rewards).

52. **Private passenger vehicles.** Private vehicles can temporarily enter into Lao PDR, Viet Nam and Thailand. A customs guarantee bond for temporary entry of vehicles is not required. To enter into Viet Nam from Lao PDR and vice versa, the driver must obtain an authorization from the Ministry of Transport of Lao PDR. A booklet is purchased either for one trip with a 30 days validity (5,000 kips) or for one full year (30,000 kips).

53. Regarding immigration formalities, Lao PDR as other countries in the region, facilitates the cross border movement of persons residing in the border region by the issuance of border passes, which can be utilized in place of a passport for movement within the adjoining prefecture or Province. Border passes are issued by municipal governments of the border regions, either for three days or for a period of one year, under the authority of a bilateral agreement between the immigration departments. For others, a visa-on-arrival system has been introduced at Wattay Airport and at the Friendship Bridge at Thanaleng, since 1 July 1997.

54. **Commercial passenger vehicles**. There is no bus service linking the centres in Lao PDR and Thailand. Passengers from Vientiane wishing to travel to Nong Khai or to Bangkok, must take a bus to the bridge site, transfer to a second (shuttle) bus that operates only between the customs posts at each end of the bridge and then transfer to a third bus for the short trip to Nong Khai. This is a complex procedure for a journey of only 25 kilometres.[13] commercial bus service is operated between Vientiane and Hanoi (via RN8) and between Savannakhet and Da Nang (via RN9)

55. **Freight movement**. Imports into Lao PDR through or from Thailand (transit transport) are transported from Bangkok or Nong Kai (if moved by railway from Bangkok), exclusively by Thai trucks belonging or subcontracted to one of the five authorized Thai companies. Interstate transport of goods, between Thailand and Lao PDR,

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[13] Shuttle buses are operated by the Thai and Lao sides to transport persons across the border. The Thai side is entitled to operate four 15 seat mini-buses. These are operated by an association of Thai bus operators who take turns to operate. Lao side operate two 25 seat mini-bus which were specifically purchased for this task.

can be transported by any registered Thai truck. Thai trucks can travel only a short distance into Lao PDR from the Friendship Bridge to the customs examination warehouse at Thanaleng, located 3 kilometres from the bridge. Those travelling directly to their destination require a police escort, providing security both for the vehicle and for its contents.

56. As part of a 1993 agreement, the Thai Government authorized five carriers to undertake the transport of goods through Thailand and to issue a carrier report (truck bill of Lading) for the transport of Laotian goods. The five authorized carriers are: Express Transport Organization (ETO); Thai–Lao Enterprise (T.L.); Ubon Saha Tham Transport Co; State Railways of Thailand (SRT); and RCL transport. Exports from Lao PDR through or to Thailand (transit transport and inter-state transport of goods) are transported by Laotian trucks up to the customs warehouse in Nong khai, where the goods are reloaded onto Thai trucks or the Thai Railways for transport to Bangkok. Laotian trucks are allowed in Thailand only within the Nong Khai prefecture.

57. Lao PDR trucks which carry exports to Nong Khai return empty, while Thai trucks which carry imports to Thanaleng generally return empty except on the basis of a case-by-case authorization issued by The Ministry of Communication, Transport, Post and Construction (MCTPC). This situation imposes a cost penalty on truckers, which is passed directly on to Lao PDR importers and exporters

58. All Lao PDR vehicles, before entering Thailand, must pay charges for the following: Laissez-passer issued by the Lao PDR police; authorization from the Province DCTPC (Department of Communications, Transport, Post and Construction); customs duty at the border; document clearance and stamp; and border pass. On arrival at the Thai border a charge is levied for document clearance plus an insurance fee (according to category of vehicles).

59. Similarly goods in transit to/from Lao PDR through a Vietnamese port can also be transported by a vehicle of either country. In other words, Vietnamese trucks carrying transit cargo between Lao PDR and a Viet Nam port or carrying goods between Lao PDR and Viet Nam can circulate within Lao PDR. Similarly, Lao PDR trucks can operate within Viet Nam under the same conditions.

60. Private motor vehicles are allowed into the country's territory. In principle, foreign commercial vehicles (freight trucks and passenger buses) are not allowed into Lao PDR except on the basis of a case-by-case authorization issued by MCTPC. Customs guarantee bond for temporary entry of vehicles temporary import, (7 days for Thai registered vehicles and 30 days for Vietnamese registered vehicles), are not required.[14]

61. Trucks entering Lao PDR at international crossing points currently pay the fees set out in Decree No2/PM dated 23 January 1992. An amendment of this Decree, expected to be signed soon by the Prime Minister, will revise the range of fees to be paid. Vehicles crossing the Friendship Bridge pay a toll bridge fee. The hours of operation of the customs and immigration services are from 6 am to 8 pm on each side, seven days a week, for

[14] As a result, the Lao PDR Department of Transport has estimated that over 300 Vietnamese trucks are still in Lao PDR, conducting transport business within Lao PDR.

private vehicles but are 6 am and 4 pm, five days a week, for the crossing of commercial vehicles.

B. Customs documentation and procedures for Lao PDR transit traffic through Thailand and Viet Nam

62. This refers to procedures at sea ports of entry/exit in Thailand and Viet Nam, as well as the border procedures when crossing land border points between Lao PDR and Thailand and Viet Nam. Procedures are easier through Thailand than through Viet Nam but more expensive. Any shipment can move to Bangkok or from Bangkok without restriction unlike the situation in Viet Nam.

1. Through Thailand

63. **Import transit cargo to Lao PDR**. All transit cargo consigned to Lao PDR, regardless of the point of exit from Thailand, must be delivered to a Transit Warehouse, located adjacent to the Port of Bangkok, at Klong Toey. For cargo landed at the Port of Bangkok, it is the responsibility of the Port Authority of Thailand (PAT) to deliver the cargo to the transit warehouse at Klong Toey, subject to the availability of the consignment note.

64. For cargo which is consigned to the Port of Laem Chabang, or to any of the five private ports located on the river within metropolitan Bangkok, the cargo must be moved under customs escort to the transit shed at Klong Toey, with the cost of escort born by the consignee. The only exception permitted is "project cargo" which can be moved directly from the port of landing to Lao PDR.

65. In order to get a transit release entry document, called the "In-Transit Entry Document" by the Thai Customs, the representative in Thailand of the Lao PDR importer or forwarder must submit a letter of authorization from the consignee, accompanied by a consular letter from the Commercial Attaché of the Lao PDR Embassy in Thailand, with the commercial invoice, the packing list and the original bill of lading. The Thai Customs do not require the import license released by the Lao PDR Minister of Commerce and Tourism unlike at the Vietnamese border. It is only when importing a vehicle into Lao PDR that the Thai customs ask for such an importation licence.

66. All imported cargo to Lao PDR is examined by customs at Klong Toey including the content of the sealed containers which are also opened. Thai Customs remeasure and re-weigh and add 15 per cent value to the declared invoice value to include transport cost to Lao PDR. This is the value estimated by the Thai customs which is used by the Lao PDR customs to calculate customs taxes to be paid by the importers.[15] Then the "In-Transit Entry" is signed by the Thai Customs.

67. Cargo is loaded from the transit warehouse into trucks, under customs supervision and Thai customs seals are affixed. The details of each load are radioed to the Thai

[15] They are generally higher than what appears in the original bill of lading, leading to disputes about the charges for handling and transport to Thanaleng. However, Lao PDR has to pay, since it is not in a position to challenge this, or has insisted on reweighing/remeasuring again at Thanaleng.

Customs House at the intended point of exit from Thailand. The transport of transit imported goods from Klong Toey via Nong Khai into Lao PDR is carried out by operators who have been authorized and certified by the Thai customs, which request that goods be transported within a container or sealed van. A recent Thai regulation requires all transit goods to Lao PDR be transported in "closed vans" which entails additional costs.[16] In theory; there is an escort from Bangkok to Nong Khai or at least a Custodian fee is charged (1,300 baths) for two trucks, while three trucks travelling together will pay a total of 2,600 baths.

68. The driver who carries the In-Transit Entry Document, presents it to the customs post first at Nong Khai and then at the exit point. Seals are verified and a confirmation radioed back to Bangkok. A copy of the duly endorsed In-Transit Entry Document is returned to Bangkok by customs. Once it reaches at Thanaleng, the Lao PDR customs calculate the duties on landed cost e.g. CIF Thanaleng or C&F Thanaleng, using the same weight and value determined by the Thai customs at Bangkok and stated in the In-transit Entry Document.

69. **Export transit cargo from Lao PDR**. The border procedures for export of goods from Lao PDR which move in transit to Bangkok are: the driver presents a carrier's report which is the truck bill of lading prepared by the forwarder in Lao PDR or by its office in Thanaleng. After crossing the bridge, the carrier's report is endorsed at the Thai customs border office. It becomes the authorization to move to the Nong Khai Customs Clearance House. There, all cargo is examined (including the opening of any sealed containers) and sealed with a Thai Customs seal. An In-Transit Entry Document is prepared by the Thai customs at Nong Khai and given to the driver to serve as authorization to move the transit goods up to Bangkok. There is no transit warehouse at Bangkok port available for goods exported from Lao PDR. Export goods from Lao PDR have to be loaded directly onto a vessel without any transhipment at Bangkok.

70. **Main complaints against transit conditions through Thailand**. The main complaints raised against the procedures regulating Lao PDR transit traffic through Thailand are:

- Laotian trucks are not allowed to go to Bangkok to pick up freight in transit to Lao PDR;
- Forwarders or their customers are not authorized to choose their transport operator. They can only use the services of those operators which are authorized and certified by the Thai Ministry of Transport;
- Import containers are systematically opened, the original seal being broken and replaced by a Thai seal;
- All the costs incurred in the Port of Bangkok on Lao PDR transit goods, in particular port terminal handling charges and container freight station (CFS) charges, are subject to the Thai value-added tax (VAT) of 7 per cent;
- Additional payment required for customs escort;
- An In Transit Entry Documentation is required for each separate invoice which must have its own set of documentation;
- Log and other forest products exported through Thailand must pay a tax of 450 bath/m3 to the Thai Forest Department.

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[16] Instruction of the Customs Department of Thailand dated March 2000

2. Through Viet Nam

71. **Movement of transit traffic.** The movement of Lao PDR transit traffic through Thailand is governed by the Transit Transport Agreement between the two Governments. The first one signed in 1978 has been renewed annually. The new Road Agreement between Thailand and Lao PDR has just been finalized, signed in 1999. Its implementation, however, is on hold due to delays in the signature of the different protocols attached it.[17]

72. The Government of Viet Nam allows only a restricted quota of Imports and Exports for transit from the Lao PDR to Vietnamese ports. They also insist on using inconvenient ports. The movement of transit traffic via a Vietnamese port for every consignment of imports and exports is subject to prior authorisation of each shipment by the Ministry of Trade in Viet Nam. The Lao Ministry of Commerce has to forward a request to the Viet Nam Ministry of Trade, with a copy to the Lao Commercial attaché in Hanoi. In addition to the letter by the Lao Ministry of Commerce, the original of the Import License, delivered by the Lao PDR Commerce Department is required by the Vietnamese Ministry of Trade. Only then will the Vietnamese Ministry of Trade issue a transit permit. The permit is valid for only thirty days.

73. The routing of documents from Vientiane to Hanoi then to a Vietnamese port can take up to a few weeks. In a current effort to facilitate Lao PDR transit trade through Vietnamese ports, the issuance of most such permits has been decentralized with permits for Da Nang Port, issued by a regional trade office in Da Nang. Nevertheless, even if the documents are sent directly to Da Nang, it still takes around two weeks to get the letter from the Commerce Department, plus an additionnal week to reach to Da Nang from Vientiane through Savannakhet. When shipment is landed at Da Nang Port, it is physically inspected by the Lao PDR freight forwarder issuing a special delivery order (DO) and a note of arrival of goods sent to Thanaleng customs. Goods are then moved by road to Viet Nam-Lao PDR border transit point, where Lao Customs inspect the goods, before the goods are allowed to pass onward to Thanaleng Customs Examining House. Exports through Viet Nam, mainly logs and high-value Lao hardwood, require special permits (available only in Hanoi), due to restrictions on the export of this commodity from Viet Nam.

74. **Main complaints against transit conditions through Viet Nam**. Although there has been a shipment of general cargo moved through the Vietnamese port since 1997, past complaints included:

- Long and cumbersome procedures for imports and exports – by the time the authorization had been received, the 30 days deadline lapsed;

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[17] The Agreement includes in particular the three following main points: (1) possibility for both contracting parties to transport goods and passengers from Thailand to Lao PDR carried out by vehicles used for commercial purpose; (2) free choice of transport operators providing, they are authorized under the laws and regulations of both contracting parties; and (3) goods in transit not subject to examination unless suspicion. Examination of cargo is subject to prior agreement of the other party and must be conducted in the presence of competent officers or representatives of both contracting parties.

- Limited number of ships between Vietnamese ports and Singapore;
- Lack of handling facilities and other port services;
- Total transport costs from/to Lao PDR through a Vietnamese port where the highest with the longest transit time of all the routes.[18]

V. LAO PDR DOCUMENTATION AND PROCEDURE FOR IMPORTS AND EXPORTS

75. Existing customs documentation and procedures impose unnecessary costs to shippers. These costs are due to procedures within transit countries, as well as to the excessively long time required to obtain various permits from ministries in Vientiane for imports into Lao PDR as well as for exports from Lao PDR.

76. The Lao PDR Trade Regime is one of the most restrictive in the ASEAN region. Only licensed trading companies are allowed to engage in export and import trade.[19] The three-fold licensing process – for status as a trading company, for overall trade volumes and for individual shipments – act as a strong disincentive for domestic firms to engage in export trade.

77. Each importer is licensed to import no more than an allocated quantity per year and in addition each individual shipment needs to be licensed by the Ministry of Commerce and Tourism. Quotas apply also to the importation of fuel and lubricants, steel construction bars, all types of cement and all types of motor vehicles and motor cycles.

78. Although Lao PDR has not yet acceded to the International Convention on the Simplification and Harmonization of Customs Procedures (the Kyoto Convention), the Customs Department has undertaken significant harmonization and simplification of documents. To replace the set of 16 separate documents formerly used by customs for the full range of import, export and transit activities, customs has introduced a single form, utilizing the UN Layout Key.

79. The Lao Customs Declaration Form is a single administrative document (SAD) aligned to the UN Layout key. As from November 2000, this Form will be used for all customs transactions, importation of goods into and exportation of goods from Lao PDR and goods in transit through Lao PDR. It replaces Document 1 (for export), Document 10 (for import) and Document 16 (for in-transit goods through Lao PDR).[20] Commodity classification has been converted to the internationally accepted HS (Harmonized System). Many of the major conditions of the Kyoto Convention have therefore already been met.

80. An identified impediment to the efficient clearance of goods crossing the border is the existing manual processing of declarations and supporting documents. In its current effort of rationalizing and simplifying import and export clearance procedures and documentation, the Lao PDR Customs is considering introducing automated customs

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[18] A comparative study on the transport costs for the movement of one loaded twenty foot equivalent container unit from Lao PDR to Rotterdam indicated $3,420 via Da Nang against less than $2,500 through a Thai port. See annex 2 .

[19] A Prime Ministerial Decree dated March 1999 sharply reduced the number of licensed trading companies

[20] Other customs improvements recently completed, include the Harmonized System (HS) for classification of goods based on the ASEAN requirements and methods of goods based on the GATT valuation system.

clearance for freight imports, exports and transit movements. For the time being, the Lao Customs is developing a customs computer system.

81. On average, it takes about two weeks to complete import/export procedures, among the concerned government departments (e.g. Ministry of Commerce, Ministry of Finance, Trade Department of Vientiane, Customs Department), with each located in a different place, each step takes about one or two days. The creation of a "one-stop shopping" window would help save time and effort. In addition, departmental documents and permits required to satisfy the legal provisions are not standardized in size and format. A harmonized system of documents conforming to the new Customs Declaration Form (just developed by the Lao PDR Customs) could also bring great improvement. Certificates of origin were issued by the Lao PDR Chamber of Commerce and Industry[21] up to 1995, but are now issued by the Ministry of Commerce, Department of Foreign Trade.

82. There is an increasing demand for goods in transit between Thailand and Viet Nam and between China and Thailand. The Lao PDR Customs has laid down procedures for the movement of such goods. At the office of entry, the carrier shall submit together with a declaration, two copies of the manifest indicating the office of exit and seal numbers. They check that the transport units are constructed and equipped to allow the proper fixing of seals. Customs seals and identification marks affixed by foreign customs administrations are accepted unless considered insufficient. In certain circumstances, goods may be escorted by a customs officer at the expense of the carrier. Goods that are or can be sealed (such as containers or vehicles with a single locked door) do not require a customs escort through Lao PDR. Unless there is a regional customs cooperation adhering to international customs conventions and procedures, transit trade will be subject to delays and detrimental interference.

VI. Review of other non physical barriers

83. Besides the constraints which have been already identified, there are a few number of other "non physical barriers":

(a) **Traffic regulation**. Lao PDR like Viet Nam, China, Myanmar and Cambodia have all adopted the right-hand drive system.[22] Only Thailand and Malaysia use the left–hand drive system. Foreign-registered left-hand-drive vehicles driven by visitors from Thailand are permitted temporary entry into Lao PDR. These two left/right-hand-drive systems have not yet posed a problem between Lao PDR and Thailand, because of the comparatively low traffic density between the two countries. However, as the number of vehicles increase, problems will undoubtably arise, as sight lines and other characteristics of road design will not accommodate right-hand-drive vehicles. This situation may in future create a kind of impediment for cross-border road transport between the two countries.

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[21] The Lao PDR Chamber of Commerce and Industry is not a member of the Paris-based International Chamber of Commerce, but maintain a relationship.

[22] Since the recent Traffic Law, new vehicles registered in Lao PDR must be right-hand-drive. For the time being, the rule is not applied retroactively. The fleet of private and commercial cars, trucks and buses presently in use in Lao PDR includes both left-hand and right-hand-drive vehicles

84. Lao PDR acceded, in July 1997, to the Agreement on the Recognition of Domestic Driving Licenses issued by ASEAN countries as a condition of entering the Association of Southeast Asian Nations (ASEAN), recognized by Thailand and Viet Nam. The vehicle must bear a current valid license issued in the country of registration. The driver must be a citizen of one of the two countries and must carry a valid driver license issued by his/her country of origin, plus a valid passport or *laissez passer*. There is no requirement for the vehicle or driver to be registered in the second country, but are bound by all laws applicable to aliens; only goods shown on the transport document may be carried.

85. For Laotian trucks travelling to Viet Nam through RN 9, the Savannakhet Province levies charges for: transit visa; border declaration; border police fees. Similarly, Laotian trucks entering Viet Nam, must pay a fee for the use of the road, a border crossing fee, a document clearance fee and an additional fee for hazardous goods.

(b) **Vehicle specifications, axle load and road design standard.** Whereas Thailand adopted the Convention of Road traffic and the Convention of Road Signs and Signals (Vienna 1968), Lao PDR has not adopted the Convention on Road Signs and Signals (Vienna, 1968). As such Lao PDR does not have a detailed set of domestic standards.[23] In the absence of national standards, a mechanism for ensuring that roads constructed by local authorities meeting minimum standards for geometric characteristics or signage, does not exist. Nevertheless, a road design manual is in the final stage of editing. Moreover the subject of road sign standards is being considered.

87. With respect to weights and dimensions of road vehicles the applied standards in the region are those agreed under the ASEAN Agreement. According to the Protocol 4 of the ASEAN Transit Traffic Agreement signed by the Ministers of Transport in December 1999, the maximum weight is 9.1 tonnes/axle. The Agreement establishes wide standards for road design and maximum vehicle weight (axle loading) on ASEAN international routes. Nevertheless, each member State can lower the limit for a specific period, depending on the condition of their national roads.

88. The Lao PDR, Regulation No. 570/ MCTPC dated April 17, 1991 indicates that the maximum axle load is 8.2 tonnes. But the MCTPC has submitted a proposal to the Government to restrict logging traffic during the rainy season (1 June – 1 November) by imposing a 30 per cent reduction on the maximum axle load on paved roads and banning traffic on unpaved roads. It is also in the process of drafting vehicle standards to match the revised design loadings, keeping the axle load limit at 8.2 tonnes on single axle sets.[24] This limit is lower than the one agreed by the neighbouring countries. In Thailand, the current axle load standard is 9.1 tonnes. Viet Nam is also expected to soon increase the allowed axle load on major roads as a result of pressure from motor carriers and recent improvements in road conditions.

89. The physical life and lifetime maintenance costs of the road as well as vehicle operating costs are affected by an increase in axle loads. Therefor, limits must be "economically" acceptable. The MCTPC has recognized that the axle load limit must be flexible with respect to the standards on international routes linking the country with its

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[24] If applied, this axle load limit will have the consequence of increasing transport cost within Lao PDR.

GMS neighbours. The MCTPC is considering to have a Decree issued by the Prime Minister which will put the axle load limit at 9.1 tonnes for international roads. Lao PDR is therefore likely to have one set of standards for designated international routes (with higher traffic levels) and another set for other main roads.

90. MCTPC which regards the control of axle loads as an important aspect of preserving the capital investments on road assets, has taken an interesting initiative. The overloaded vehicles, besides paying a fine of only 50,000 kips (less than $6.50 equivalent) per excess tonne, (which is small relative to the financial gain the operator receive from the practice) will have to pay also a surtaxe for overloading.[25] If the surtaxe is calculated at the estimated rate of increased road damage, it could provide the revenues required for repairing and rehabilitating roads damaged by heavy vehicles.

(c) **Insurance.** The Insurance Law no. 11/90/PSA, dated 29 November 1990 makes third party motor liability insurance compulsory in Lao PDR, as in the case in Thailand and Viet Nam. The system provide cover for bodily injuries and property damage to third parties for victims of motor accidents.[26] The problem with the current insurance system is that it is limited to the geographical area of respective States. Foreign vehicles must purchase Lao PDR motor insurance coverage at the border before entering into the country. The same conditions applied to Laotian vehicles entering Thailand or Viet Nam. The compulsory insurance of foreign (as opposed to domestic) vehicles (mainly Thai) on Lao PDR territory is actively enforced; The serial number of the insurance policy of Thai vehicles at the border is systematically checked by computer to confirm the validity of the cover.

92. In Lao PDR, there is only one insurance company "Les Assurances Générales du Lao PDR" (AGL).[27] There is an AGL branch office located at the Friendship Bridge for the purpose of selling third-party motor liability insurance to foreign vehicles. Since, on the Thai side of the border there are no insurance company branch offices, AGL also acts as an intermediary of the Thai insurance company VIRIYAH, to sell Thai cover. AGL has branch offices at the Vietnamese borders and representation in Viet Nam but so far, does not have mutual representation with a Vietnamese insurance company. The practice of obtaining border insurance for every trip into neighbouring countries is both cumbersome and expensive. The double insurance for Lao PDR vehicles carrying goods to Nong Khai is an additional expense that increases the transport prices paid by Laotian consumers.

93. It is in that context that the ASEAN countries have been working on an ASEAN scheme of compulsory motor vehicle insurance, still under discussion. The key instrument of a common system of motor third party liability insurance is a unified insurance card

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[25] A recent axle load survey conducted in November 1998 on Road 13S near Thakhet has indicated out of 1,200 vehicles checked, 20 per cent had axle load over 8.2 tonnes with the heaviest 16 tonnes. (see Strategic Decisions for the Development of the Road Sector in Lao PDR– June 2000).

[26] Compulsory third party motor insurance is of no–fault limited cover type in Lao PDR, with only bodily injury covered up to 700,000 kips; above that ceiling, the liability for traffic accidents is based on fault and unlimited, but subject only to voluntarily insurance cover.

[27] Although the market is open to new entrants, AGL remains the only established insurance company in Lao PDR. The Government has raised its participation in AGL to 49 per cent. For purely technical reasons (spreading of risks), the limited Lao PDR insurance market demand may not be adequate to accommodate more insurance companies.

delivered by the insurer in the country of origin of the motor vehicle. "A Blue Card" will be issued though local insurers.

94. A "National Bureau", in each country shall be entrusted to administer the common system and to represent motor insurers registered in the country. The national bureau will among other things: issue the Blue Card and deliver it to those insured, through local insurance companies; settle claims arising from accidents occurring in other ASEAN countries and which are caused by the holders of cards issued by it; and to handle on behalf of other national bureaus, claims arising from accidents which occur in the country and which are caused by holders of cards issued by these bureaus.

95. A "Council of Bureau" will be formed and composed of representatives of all national bureaus whose main function includes the harmonization of the activities of the national bureaus and ensuring their good operations. Such a scheme will entail problems of implementation in Lao PDR and consequently additional costs for the transit transport. Under these circumstances, there is a risk that the Lao PDR bureau may duplicate the work of AGL. The financial consequences could result in an increase in the premium paid in Lao PDR to provide the national bureau with sufficient resources to operate and maintain competent staff to handle and settle claims. In addition, since coverage guarantees in Thailand and other ASEAN countries are higher than in Lao PDR, as the payment of an additional premium corresponding to the extension of cover must also be included in the premium to be paid.

VII. TRANSIT TRANSPORT AGREEMENTS

A. Bilateral Agreements

96. Lao PDR entered into the following bilateral agreements in the field of cross-border transport with Thailand, Viet Nam, China and Cambodia:

(a) **With Thailand**: Agreement on Road Transport between the Government of the Kingdom of Thailand and the Government of the Lao People's Democratic Republic dated March 5, 1999 (to replace the 1978 Transit Agreement).

(b) **With Viet Nam**: Agreement on Road Transport between the Government of the Socialist Republic of Viet Nam and the Government of the Lao People's Democratic Republic dated February 24, 1996.

(c) **With Cambodia**: Agreement on Road Transport between the Government of the Kingdom of Cambodia and the Government of the Lao People's Democratic Republic dated October 21, 1999.

(d) **With China**: Agreement concerning International Road Transport between the Government of the People's Republic of China and the Government of the Lao People's Democratic Republic dated December 3, 1993; Protocol on the establishment of regulations to issue licences for international transport between The Ministry of Communication and Transport, Post and Construction of the Government of the Lao People's Democratic Republic and the Ministry of Communications of the People's Republic of China dated January 9, 1994.

(e) **With Myanmar**: Agreement on Commercial Navigation on the Lancang-Mekong river among the Governments of the People's Republic of China, the Lao People's Democratic Republic, the Union of Myanmar and the Kingdom of Thailand signed April 20, 2000 at Tachileik, Myanmar.

In addition to bilateral transport agreements, the movements of goods and people between Lao PDR and its five neighbours is governed by a complex set of additional bilateral agreements (or Memorandum of Understanding) at the Ministerial level, including those related to Trade, Immigration, Customs, Health and Agriculture.

B. Multilateral Agreements

97. Of more significance, are the different initiatives taking place over the past few years resulting in the following signed multilateral agreements:

1. GMS Trilateral Agreement for the facilitation of Cross-border Transport of Goods and People in the Greater Mekong Sub-region (GMS)

98. This trilateral Agreement (with funding of ADB) was signed November 26, 1999. The signatories to the Agreement were the Governments of: the Lao People's Democratic Republic, the Kingdom of Thailand and the Socialist Republic of Viet Nam. Following annexes and protocols are being discussed as a part of the above agreement:

Annex 1: Carriage of Dangerous Goods; Annex 2: Registration of Vehicle in International Traffic; Annex 3: Carriage of Perishable Goods; Annex 4: Facilitation of Border Crossing Facilities; Annex 5: Cross Border Movement of People; Annex 6: Transit and Inland Customs Clearance Regime; Annex 7: Road Traffic Regulation and Signage; Annex 8: Temporary Importation of Motor Vehicles; Annex 9: Criteria for Licensing of Transport Operators for Cross Border Transport Operations; Annex 10: Conditions of Transport; Annex 11: Road and Bridge Design and Construction Standards and Specifications; Annex 12: Border Crossing and Transit Facilities and Services; Annex 13a: Multimodal Carrier Liability Regime; and Annex 13b: Criteria for Licensing of Multimodal Transport Operators for Cross-Border Transport Operations.

Protocol 1: Designation of Corridors, Routes and Points of Entry and Exit (Border Crossings); Protocol 2: Road User Charges in Transit Traffic and Protocol 3: Frequency and Capacity of Services (Quotas) and Permits.

These annexes and protocols are still under discussion and as such no deadline has been set to have them approved. However, it is felt, however, that the GMS transport facilitation agreement holds greater potential to be reached than the ASEAN framework, due to fewer countries involved allowance for difficult issues to be resolved between pair countries.

2. ASEAN Agreements for transport facilitation

- ASEAN Framework Agreement on the Facilitation of goods in Transit;
- ASEAN Framework Agreement on the Facilitation of Inter-State Transport;
- Framework Agreement on Multimodal Transport.

The Agreement on the Facilitation of Goods in Transit was signed in Hanoi (Viet Nam) by the nine Ministers of the ASEAN countries on December 16, 1998 and has so far been ratified (as of October 2000) by all countries, excluding Singapore. The sixth ASEAN Transport Meeting (ATM) which took place in Brunei Darussalam (4-5 October 2000) recommended that all members Countries, by 31 December 2000.

99. The status of the nine implementing protocols attached to the above Agreement is as follow: Two Protocols were signed in Hanoi in September 1999 during the fifth ASEAN Transport Meeting: Protocol 3: on Types and Quantity of Road Vehicles and Protocol 4: on Technical Requirements of vehicles. The Protocol on Sanitary and Phyto-Sanitary Measures was signed October 2000 in Brunei Darussalam. Protocol 2: on Designation of Frontier Posts; Protocols 5: ASEAN Scheme on Compulsory Motor Vehicle Insurance; Protocol 6: Railways Border and Interchange Stations; Protocol 7: Customs Transit System; and Protocol 9: Dangerous Goods are still in the drafting process. Protocol 1: Designation of Transit Routes and Facilities, is still under discussion resulting from a disagreement between Singapore and Malaysia.

100. The final draft of the two other Agreements should be submitted for adoption and signing at the seventh ATM is scheduled in 2001.[28] The ASEAN Transport Ministers have furthermore reaffirmed the importance of the overall improvement of transport infrastructure linkages and the importance of strengthening institutional arrangements for transport facilitation and logistics as part of the process of closer integration in ASEAN and the implementation of the ASEAN Free Trade Area (AFTA).

3. The seven core ESCAP international conventions

101. In April 1992, the ESCAP Commission recommended the following seven conventions be adopted (Resolution 48/11 on road and rail conventions):

- Convention on the Contract for the International Carriage of Goods by Road (CMR) (Geneva 1956);
- Customs Convention on the Temporary Import of Commercial Road Vehicles (Geneva, 1956);
- Convention on Road Signs and Signals (Vienna, 1968);
- Convention on Road Traffic (Vienna, 1968);
- Customs Convention on Containers (Geneva, 1972);
- Customs Convention on the International Transport of Goods under Cover of TIR Carnets (Geneva, 1975)
- International Convention on the Harmonization of Frontier Control of Goods (Geneva, 1982).

None of these seven Conventions have been ratified by the Lao PDR National Assembly and proclaimed by the President as stated in the 1991 Constitution. Prior to these

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[28] The adoption of the Agreement on the Facilitation of Goods in Transit has raised less difficulties than the Agreement on the Facilitation of Inter-State Transport, because goods in transit are in principle free of customs inspection while the interstate transport of goods require customs procedures be get up to control the movement of imports and exports between contracting countries.

international conventions being submitted for ratification, they must be presented in a Lao-language version, although an English or French version will prevail in the case of divergent interpretation. As Official translation into the Lao language is a prerequisite, the translation already achieved in Thailand could be used.

VIII. SUMMARY AND CONCLUSIONS ON THE NEW TRANSIT TRANSPORT ISSUES FACED BY LAO PDR

102. **Challenges and opportunities**. Lao PDR is a landlocked country. Land border-crossing and transit through third countries results in increased transport costs relative to those incurred by countries with direct access to the sea. Dependence on the transit country's transport facilities further implies a relative lack of control over the development of infrastructure, transport management and policy, which are shaped by the transit country according to considerations of its own economic and social interests. But at the same time, Lao PDR, because it shares borders with five transit countries, holds within the mainland Southeast Asia a new and pivotal role in what is referred now as the Greater Mekong Sub-region (GMS).[29]

103. In fact, driven by its current policy of opening the country and of making the transition toward a more market-oriented economy, the Lao PDR Government is taking a number of steps to transform the country from "Landlocked to Land-link". With the development of international transit traffic for neighbouring countries through Lao PDR, it is essential that Lao PDR derives benefits which will satisfactorily compensate it for the effort and expense in providing this facility.

104. It is essential for Lao PDR to find economically sound ways of financing the rehabilitation and maintenance costs of the infrastructure used by transit traffic (including the reimbursement of contracted international loans). At the same time the Government must ensure that the economy will benefit from the development of transit traffic though its territory/land guard against becoming nothing more than a "truck stop" between its more powerful economic neighbours, resulting in very little economic benefit to itself.[30]

105. This was highlighted in the East–West Transport Corridor study which under the "Lao dilemma of transit trade", noted that while opening up transit routes within Lao PDR will yield tangible benefits for neighbouring countries, net financial benefits will not accrue to Lao PDR under present circumstances.

It is quite clear that before new markets can open up for Laotian products resulting from new trade routes,[31] the Laotian transport sector must be updated, made more efficient and provide better quality service.

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[29] Cambodia, Myanmar, Thailand, Viet Nam and Yunnan (China). The common denominator of all these countries with Lao PDR is the Mekong River.

[30] Towns on the main through roads may derive some benefit from increased economic activity, but it is likely that this will be narrowly focused from a special point of view. A comprehensive approach on how Lao PDR could benefit from being a cross-roads country is an urgent task and should require as much attention and concern as for the improvement of its access to the sea.

[31] It is also necessary that the existing licensing system be liberalised, and the setting of quantities by licensed import companies abolished and ideally followed by a phasing out of all import/export licenses. Without good trade facilitation measures there is no possibility to have an effective national transport industry.

106. Many transport-related problems are the result of adhering institutional or traditional habits which are no longer adequate in a modern, competitive transport environment. The recent establishment of the National Transport Facilitation Committee (Lao NTFC) by the Lao PDR Government to encourage the modernization of transport practices and technology in support of the international trade of LAO PDR, is a good step in the right direction.[32]

107. **Implementation of transport transit agreements.** Through its recent entry into a number of key bilateral agreements which follow international recommendations, Lao PDR has taken the first steps to facilitating the above improvements. These agreements must now be implemented. More significantly, regional frameworks have been developed for the facilitation of cross border transport of goods and people with the same provisions under the ASEAN Agreement for the Transport Facilitation and the GMS Trilateral Agreement Initiative.

108. As a next step, the Lao PDR Government should prepare the country for the implementation of these agreements by ensuring that they will benefit the Laotian people and the economy. It is important to understand that these agreements will completely alter the nature of relationships, Lao PDR had with its transit neighbour countries. Once these agreements are implemented, Lao PDR, as a landlocked country, will no longer be the weak partner completely dependent on neighbouring countries' transport policies, transport enterprises and transport facilities. It will be able to negotiate effective proposals regarding improvements to facilities, procedures, priorities and user charges of its transit neighbours, from a position of strength.

109. In the wake of a number of bilateral, trilateral and multilateral agreements signed by Lao PDR recently, it is clear that Lao PDR and its neighbouring countries have a "package of recommendations and measures" which should "simplify and harmonize transport, trade and customs regulations" and consequently " facilitate transportation of goods in transit".

110. **Resources mobilization and policy measures to improve road networks**. The Lao PDR Government must now seek ways to finance the rehabilitation, construction and maintenance of international roads within its territory. It has invested heavily in road infrastructure, allocating roughly 40 per cent of the national budget to upgrading and maintaining the road network. Some of the roads under rehabilitation within Lao PDR are becoming important not only for domestic traffic but also for international traffic. This is a totally new situation for Lao PDR. The greatest challenge now is how to pay for all of this.

111. The East-West Corridor Transport Study concluded that a case can be made for a dedicated East-West Transport Corridor Road Fund or Authority perhaps established on a commercial (fee-for-service) basis and managed like a business". Establishing an adequate user charge system for transit traffic is critical for Lao PDR. It must ensure that the

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[32] The objective of the Lao NTFC is "to encourage the simplification and harmonization of formalities, procedures and documentation used in international transport aiming at facilitating international transport". A senior official from the Ministry of Communication, Transport, Post and Construction is the acting Secretary General of Lao NTFC.

incremental road and bridge costs imposed by transit traffic is matched by incremental revenue inflows. Several different user charge systems are under consideration.

112. Except for tolls at Friendship Bridge and on two recently completed bridges on Route 13, Lao PDR does not collect road-user charges directly from users, nor is there mechanism for collecting a non-discriminatory charge from foreign vehicles in transit. The possibility to set-up toll roads has been suggested, and users would be required to pay each time they used it. Yet, during a workshop involving MCPTC officials and road users which was held in Vientiane in February 1998, it was pointed out that regarding the traffic level currently observed on main roads in Lao PDR, the introduction of toll roads would not be cost effective, in part because of the high fixed costs associated with the operation of toll booths. Toll road as a revenue collection method (from a public finance point of view) are costly in comparison to on-going general taxes.

113. In addition as it was noted in a World Bank report that when a toll road is introduced to finance a new road "it may actually harm the development of these facilities if the toll levied is in addition to road users charges – since it would be the equivalent of an additional tax on the activities in these areas. Public toll financing should be considered cautiously.

114. Following the Road Law promulgated in 1999 which has a provision for "road development funds", a Prime Ministerial decree should be put into effect by year-end to create a fund dedicated to road maintenance. This decree will be in conjunction with a fuel levy of about 40 kips per litre to be collected and transferred directly to the road fund. Although the fund is estimated to collect $1 million, the maintenance needs of the road are estimated at $15 million per year. An increase of the fuel tax seems advisable and necessary.

115. The most frequent arrangements are the Build-Operate-Transfer(BOT), Rehabilitate-Operate-Transfer (ROT) and other related concessionary agreements. This has already been tried in Lao PDR but without much success.[33] The MCTPC has, however, considered having the rehabilitation of road 12 financed through a concession agreement. The Foreign Investment Management Committee of Lao PDR has given its agreement in principle. A Thai company has expressed interest to construct the road under a BOT arrangement. The Vietnamese have also expressed interest in its construction and a mission is scheduled to go to Lao PDR to discuss the issue by mid November of this year.

116. In such a construction arrangement, a private party (the concessionaire) agrees to finance, construct, operate and maintain a facility for a specified period of time and then transfer the facility to the Government or other public authority. Both operating and investment risks are transferred to the concessionaire. In return, the appropriate public authority awards "monopolistic rights" to the concessionaire for the provision of specified public services under defined conditions. In other words, under a concession system, the Government of Lao PDR, through MCTPC, will grant to the concession company (the

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[33] A Thai construction company received a five-year concesssion in 1994 to rehabilitate the NR 3 between Hay Say (Lao PDR border with Thailand) and Botene at the Lao PDR-China border. The road is 200 kilometres and has 53 bridges in need of reconstruction. At the end of the 5 year-concession, only 7 bridges had been reconstructed. The Company has requested an extension (to end of 2003) to complete the work and has sought the support of the Lao PDR in order to get a loan from ADB.

concessionaire or consortium) the exclusive and irrevocable right to finance, build, own, operate charge users for revenues during the term of the concession and maintain the public infrastructure, for a given period.

117. The role of the concession agreement is extremely important as it determines the contractual relationship between the Consortium and the Government. It is on the strength of the concession agreement which enables the Consortium to enter into a loan agreement, construction and operating contract, as well as to assume development risks. The consortium, accepts the responsibility of ensuring the project is financially viable and that adequate finance will be available to repay it.

118. The establishment of an international financing system with contribution from countries interested in to finance transit transport corridor infrastructure projects through Lao PDR is a possibility. These corridors rehabilitated by joint financing in the framework of international cooperation must have an "essential nature", e.g. they must be recognized as essential to the sub-regional and national economy. In such a scheme, financial resources would be jointly provided by the countries directly concerned (countries of transit and countries seeking authorization of transit), bank credits granted by various existing international investment banks, financial resources provided by international lending institutions, etc.

119. Two possibilities should be considered regarding the status of such roads: firstly, the road must remain part of the national network of a given country and should have the same status as the other roads of the national network. Secondly, if the transit road is given special status, it raises the question of infringement of sovereignty over national territory, in which case, the first possibility is therefore the most acceptable one.

120. Another related issue raises the question: to whom the management of such road should be entrusted. Multinational management would be prejudicial to national sovereignty and is consequently unacceptable. National bodies or institutions should therefore have the responsibility for the management of such roads, but the basis, criteria, methods and systems for their operation should be determined by agreement between the countries concerned. This approach will enable the parties concerned to keep informed of the efficiency of the managing entity, the use made of the resources contributed and the profitability of the investment.

121. **Strengthening the Lao PDR transport industry (freight forwarders and road transporters).** Unless Lao PDR strengthens the capability of its transport industry and more specifically reinforces the role of its freight forwarders and road transporters, transit transport activities will otherwise remain totally dependent on the transit countries. The status of freight forwarders in Lao PDR is not entirely clear. While potential freight forwarders must be approved and licensed by MCTPC, there seems to be no other special regulation that controls their activities or prescribes that they have liability insurance to protect them against legitimate claims from their clients should an accident occur. This situation should be regularized and the Lao PDR freight forwarding industry should standardize trading conditions and develop their own combined transport document in line with ICC-UNCTAD guidelines for FIATA Bill of Lading (FBL).

122. The establishment of a fully fledged Inland Custom Depot (ICD) in Lao PDR could have beneficial effects on its trading and industrial activities.[34] An ICD could provide small importers and exporters with improved possibilities for foreign trade since it would enable freight forwarders to engage in "groupage" or "consolidation" services, which is now the responsibility of the freight forwarding industry. Today, freight forwarders in Lao PDR are nothing more than clearing agents who handle customs matters and issue series of documents associated with import and export procedures. Modern freight forwarders perform many other services which add value to goods, for example, through the provision of consolidation services. They could also assist Laotian importers and exporters to negotiate international trade under other delivered trade terms (to sell FOB Thanaleng and to buy CIF Bangkok)[35], in order to better control the transport chain and to choose the most suitable routes and carriers.

123. Similarly there is an urgent need to develop a competitive road transport industry. The fleet of vehicles presently operating in Lao PDR and used, in particular, for the movement of Lao PDR exports to the customs warehouses in Nong Khai is ageing (the average age of trucks is estimated to be at least 15 years) and comparatively small (maximum 12-tonne payload). Such vehicles, if allowed to travel to the angkok area, would unlikely be cost effective when compared with the larger vehicles generally in use in Thailand.

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[34] Thanaleng is only an examining Customs house.

[35] These two well-known INCOTERMS mean that the foreign buyer and the foreign seller control the transport of the goods outside the borders of Lao PDR. This make it very difficult for the Lao PDR freight forwarders to assume the "principal" or "carrier" in their own right.

ANNEXE 1

GDP Breakdown by Sector
(Percentages)

	1994	1995	1996	1997	1998
AGRICULTURE	57.6	55.7	53.3	53.3	52.6
Of Which - crops	(29.0)	(26.5)	(25.1)	(27.1)	(27.5)
- Livestock and fisheries	(22.6)	(22.0)	(21.4)	(20.1)	(19.6
- Forestry	(6.0)	(7.2)	(6.9)	(6.1)	(5.5)
INDUSTRY	18.1	19.2	21.1	21.2	22.0
- Mining	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)
- Manufacturing	(12.9)	(14.3)	(15.9)	(16.0)	(16.7)
- Construction	(3.4)	(3.4)	(3.5)	(3.5)	(2.7)
- Electricity, gas and water	(1.6)	(1.4)	(1.5)	(1.3)	(2.1)
SERVICES	24.3	25.1	25.5	25.5	25.4
- Transport & Communication	(4.8)	(5.4)	(5.8)	(5.7)	(5.8)
- Trade	(8.3)	(8.5)	(8.7)	(9.1)	(10.4)
- Others	(11.2)	(11.3)	11.0)	(10.7)	(9.2)

Source: IMF Staff Country Report, January 2000

ANNEX 2

TRANSPORT TRANSIT COSTS

Goods in transit to Lao PDR support higher transport costs. The transport cost by Thai trucks between Bangkok and Thanaleng ($350) is much higher than the transport cost between Bangkok and Nong Khai in Thailand ($225).

By comparison, the transport cost between Vientiane and Luang Prabang (450 kilometres) by Lao PDR trucks is $200 or 44 cents/kilometres.

At the same time, Lao PDR truck charges between Vientiane and Nong Khai (a 25 kilometres stretch) amounts to $50 or $2 per kilometres.

COST COMPARAISON BY TRANSIT TRANSPORT CORRIDORS

A study conducted in 1999 attempted to establish the transport cost between Viet Nam and Thailand. The following table summarizes the average cost of shipping one 20'TEU consignment from/to Vientiane to/from Rotterdam (Netherlands).

		CORRIDOR	VIET NAM	THAILAND	
		Port of Exit	Da Nang	Bangkok	Laem Chabang
TOTAL COSTS Vientiane – Rotterdam port			$3,420	$2,477	$2,450
Duration of the journey			32-34 days	30-31 days	29-30 days
MARITIME (consignment of 20 'TEU)			$1,675	$1,485	$1,485
Maritime per ton (20'TEU loaded 17t)					
INLAND TRANSPORT CHARGES			$1745	$992	$965
Port handling charges			$124	$383	$292
Customs clearance					
ROAD TRANSPORT		Costs per truck (*)	$752	$357	$426
		Total km	1060 km	650 km	775km
		Tariff/per km	$0.70	$0.55	$0.55
		Road trip duration	4 days	1 days	1 day
Vientiane – Nong Khai		Road+bridge fees		$74	$74
		Document charges			
& Freight forwarding charges			$390	$178	$173
Other charges			$479	-	-

(*) These tariffs are those charged for break bulk cargo or for return container. The tariff for transporting a container full, one way and empty on the return between Bangkok and Vientiane ranges between $700 and $900.

ANNEX 3

Outline of the Trilateral Agreement among the Lao PDR, Thailand and Viet Nam for Facilitation of Cross-Border Transport of Goods and People dated 26 November 1999.

Part I. GENERAL PROVISION
Article 1: The objectives of the Agreement are (a) to facilitate the cross-border transport of goods and People between and among the Contracting parties; (b) to simplify and harmonize legislation, regulations, procedures and requirements relating to the cross-border transport of goods and People; and (c) to promote multimodal transport.

Part II. FACILITATION OF BORDER CROSSING FORMALITIES
Article 4: Facilitation of Border Crossing Facilities: single window inspection and single stop inspection (inspection and control carried out jointly);

Part IV. CROSS-BORDER TRANSPORT OF GOODS
Article 7: Exemption from Physical Customs Inspections, Bond Deposit and Escort: of cargoes in international transit;
Article 8: Transit Traffic (a) freedom of transit through their territory for transit traffic; (b) transit traffic shall be exempted from any customs duties and taxes; (c) Charges relating to transit traffic other than customs duties and taxes shall be gradually levied in two steps: step 1 Charges concerning Transit traffic other than customs duties and taxes shall be levied as determined in Protocol 2; step 2: Charges levied on transit traffic shall only be cost related.

PART V. REQUIREMENTS FOR THE ADMITTANCE OF ROAD VEHICLE
Article12: Registration.
Article 13:Technical Requirements.
Article 14: Recognition of Technical Inspection Certificates.
Article 15: Road Traffic Regulations and Signage: to gradually adopt rules and standards set out in Annex 7.
Article 16: Compulsory Third-Party Motor Vehicle Liability Insurance.
Article 17: Driving Permits.
Article 18: Temporary Importation of Motor Vehicles.

PART VI. EXCHANGE OF COMMERCIAL TRAFFIC RIGHTS.
Article 19. Traffic Rights shall be gradually exercised in two steps:
Step 1. (a) Transit through the other Contracting Parties; (b) Inbound into another Contracting Party; (c) Outbound from another Contracting Party.
Step 2. Transport operators established in one Contracting Party may, according to free market forces, undertake transport operations into, from, or across the territory of other Contracting parties. Cabotage shall, however, only be permitted on the basis of a special authorization from the Host Country.
Article 20: Designation of Routes and Points of Entry and Exit.
Article 21. Licensing of the Transport Operator (Access to the Profession) according to the criteria set out in Annex 9.

Article 22: Market Access: (a) Any transport operator properly licensed for cross-border operations in its Home Country according to the criteria set in Annex 9, shall be entitled to undertake cross-border transport operations under the Agreement.
(b) The Host country shall grant permission to Transport Operators engaged in cross-border transport to establish representative offices for the purpose of facilitating their traffic operations.
Article 23: Free Market for Transport Services: Transport operation shall be authorized in two steps:
Step 1: Protocol 3 will designated the vehicles which can operate, the transport frequency; the time frame to implement Step 1. The National Transport Facilitation Committee of each Contracting Party will exchange and issue the agreed number of permits each year.
Step 2: The frequency and capacity of the transport operations under the Agreement will not be subject to any restriction other contained in the Agreement.
Article 24: Pricing and Conditions of Transport. (a) Conditions of transport set out in Annex 10; (b) Pricing setting for cross-border transport will be free and determined by market forces, but subject to antitrust restrictions and supervisions of the Joint Committee so as to avoid excessively high or low pricing.

PART VII. INFRASTRUCTURE
Article 25: Road and Bridge Design Standards contruction carried out in accordance with the minimum characteristics set out in Annex 11, to the extent permissible by available financial resources.
Article 26: Road Signs and Signals: to gradually bring traffic signs and signals in line with the standards set in Annex 7.

Part IX. INSTITUTIONAL FRAMEWORK
Article 28: National Transport Facilitation Committee to be established in each country
Article 29: Joint Committee (a) formed by the representatives of the National Transport Facilitation Committee; (b) monitor and assess the functioning of the Agreement.